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August 21, 2002

RECEIVED

Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth St., S.W.
Washington, D.C. 20554

AUG 21 2002

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

**Re: Qwest Communications International Inc. Consolidated
Application for Authority to Provide In-Region,
InterLATA Services in Montana, Utah, Washington,
and Wyoming; WC Docket No. 02-189**

Dear Ms. Dortch:

On behalf of Qwest Communications International Inc. ("Qwest"), I am submitting this *ex parte* letter to notify you that Jerry Thompson of Qwest had a telephone conversation yesterday with Dick Kwiatkowski of the Wireline Competition Bureau, Pricing Policy Division, regarding matters addressed in my *ex parte* letter filed in this docket on August 15, 2002. Later in the day yesterday, Mr. Thompson and I spoke with Aaron Goldschmidt of the same division regarding other matters addressed in the same *ex parte* filing. In addition, this letter provides responses to several questions from members of the staff of that division.

First, one staff member asked for more detailed information about Qwest's Synthesis Model calculations used in the benchmark analysis to derive rates for Montana, Utah, Washington, and Wyoming from the rates established in Colorado. Qwest's response is included in the attached narrative.

Second, another staff member asked about the two rate elements listed as non-recurring "per order" OSS charges in sections 12.1 and 12.2 of the Montana SGAT Exhibit A, one of \$14.41 for development and enhancements and one of \$1.41 for ongoing maintenance. The staff member asked whether a CLEC that submits an order for multiple lines would pay one charge of \$14.41 and one of \$1.41, or whether the charges would be applied once for each line. Qwest's response is as

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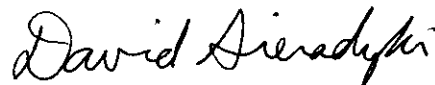
Marlene H. Dortch
August 21, 2002
Page 2

follows. In an *ex parte* notice filed in this proceeding on August 15, 2002 regarding a presentation on August 14, 2002, Qwest stated that it will revise its Montana SGAT Exhibit A to clarify that there is no charge at this time, pending further proceedings at the Montana PSC. With respect to the charges that currently appear in the Montana SGAT, in the case of a single Local Service Request including service orders covering multiple lines, both the \$14.41 charge and the \$1.41 charge would apply, on a non-recurring, per-line basis. In other words, in Montana, these charges apply per service order – *i.e.*, per line – rather than once per Local Service Request.

Finally, a staff member asked about the position that Qwest is taking in the new UNE pricing proceeding that was recently initiated before the Public Utility Commission of Utah ("PSCU"). In response, I am providing the prepared direct testimony of Laura Scholl on behalf of Qwest, filed with the PSCU on June 21, 2002, together with a price list that identifies the UNE rate elements at issue in that proceeding and Qwest's proposed rates for those elements.

Pursuant to the Public Notice in this proceeding, DA 02-1666 (released July 12, 2002), the 20-page limitation does not apply. If you have any questions about this matter, please contact me.

Respectfully submitted,



David L. Sieradzki
Counsel for Qwest Communications
International Inc.

Enclosures

cc:	Keith Brown	Jeremy Marcus
	John Copes	Jennifer McKee
	Aaron Goldschmidt	Steve Morris
	Diana Lee	Paul Zimmerman

Summary Explanation of Qwest's Synthesis Model Calculations

All of the UNE-P elements, including Switching and Transport, are based on formula modifications to the default run of the SM, with no modifications to the SM's inputs (certain study areas had wire centers removed to reflect Qwest's current properties). All of the formula modifications are based on Qwest's understanding of the FCC's preferred method of calculating UNEs with the SM. The formula modifications either adjust for the differences between retail and wholesale costs and MOUs or allocate overhead among UNEs proportionate to investment.

Switching:

In the SM, switching is divided into Port and Usage (NTS and TS costs). Port's formula (found in column 'HV') now simply points to 'EO Switching Line Port Unit Cost' (found in column 'HE'). This new formula fully allocates all port costs to this UNE.

Usage's formula is more complex. It starts with 'EO Switching Usage Unit Cost' (found in column 'HF') and multiplies it by the ratio of total MOU per month to the number of lines. This yields a per line cost. The exact formula (for row 3) is:

'IF(B3="",0,(HF3*(Inputs!\$C\$105)/(SUM(C:C)+SUM(D:D)+SUM(F:F))/12)).'

Transport:

More complex still is the transport calculation formula. Transport starts with 'Direct Transport Unit Cost per minute' and 'Direct Transmission Unit Cost' (found in columns 'HN' and 'HO'). The sum of these cells are multiplied by local and intraLATA MOU to yield a weighted per line cost. This value is then added to the sum of 'Common Transport Unit Cost per minute per leg' and 'Common Transmission Unit Cost per minute' (found in columns 'HP' and 'HQ'), multiplied by total common transport MOU. Again this yields a weighted per line cost. This total is then added to 'Tandem Switching Unit Cost' (found in column 'HR') multiplied by total tandem switch MOU. As with the prior monomials, this multiple yields a weighted per line cost. Finally, the entire value is divided by the total lines and again by 12 to yield a per line cost for transport. The exact formula (for row 3) is:

'IF(B3="",0,((((HN3+HO3)*(Inputs!\$F\$102+Inputs!\$F\$103))+((HP3+HQ3)*Inputs!\$C\$88)+(HR3*Inputs!\$C\$111)))/(Summary!\$C\$3+Summary!\$D\$3+Summary!\$F\$3)/12)).'

Overhead:

In the default version of the SM, all overhead is assigned to the loop. Since the SM is a total system cost model, this simplification is acceptable. For total element models, however, overhead must be allocated among all UNEs. To achieve this, the modified SM first removes the overhead from the loop. Then the avoided retail costs are removed from the overhead figure (mostly retail customer service). The new overhead is allocated among the UNE-P elements proportionate to each element's underlying investment relative to total investment. Therefore, not all overhead is allocated to the UNE-P elements which the SM models. The formulas governing the overhead calculation can be found on the 'Investment Input' tab of the workbook, cells 'IG7:IG28.'

- BEFORE THE UTAH PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Determination of the)	DOCKET NO.01-049-85
Cost of the Unbundled Loop of QWEST)	
CORPORATION)	
)	
)	

DIRECT TESTIMONY OF

**LAURA SCHOLL
QWEST CORPORATION**

June 21, 2002

I. Identification of Witness

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH QWEST.

A. My name is Laura Scholl. Qwest Services Corporation employs me as the Director -Regulatory Affairs for Utah. My business address is Room 1603, 250 Bell Plaza, Salt Lake City, Utah.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My education includes a Bachelor of Science degree in political science, Magna Cum Laude, from the University of Utah in 1976. I also earned a Master's of Business Administration from the University of Phoenix in 1986 and a graduate certificate in Alternative Dispute Resolution from the University of Utah in 1995.

I began my career in telecommunications in 1978 in the marketing department of Mountain Bell. In 1986, I joined the Public Policy department where I have been responsible for internal communications, state marketing, economic development and media relations. I was named as a regulatory affairs manager in 1991. As a regulatory affairs manager I was responsible for new products and service introductions, promotions and management of ongoing dockets such as Universal

1 Service, rate cases, and dockets such as this cost docket. In July of 1998, I
2 assumed my present position as Director-Regulatory Affairs for Utah.
3

4 **Q. WHAT ARE YOUR CURRENT JOB RESPONSIBILITIES?**

5 **A.** As the Utah Regulatory Affairs director I am responsible for all regulatory issues
6 relating to both retail and wholesale services. As a result, I oversee product and
7 service offerings, rulemakings, service quality, cost determinations and other
8 issues which relate to regulatory policies or processes.
9

10 **Q. HAVE YOU EVER APPEARED BEFORE THIS COMMISSION ON**
11 **BEHALF OF U S WEST OR QWEST?**

12 **A.** Yes. I testified in Docket No. 95-049-18 and Dockets No. 90-049-03 & 90-049-
13 06 relative to the amount and distribution of customer credits. I testified in the
14 ongoing cost investigation, Docket No 94-999-01, in Phases I, IIIA and IIIC as
15 the policy witness. I testified in Docket 98-2208-03, the arbitration proceeding
16 with Nextlink and in the U S WEST/QWEST merger case, Docket 99-049-41.
17

18 **II. Purpose of Testimony**
19

20 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

21 **A.** In my testimony, I introduce the other witnesses and provide some historical
22 perspective on the wholesale cost proceedings in Utah. I also describe Qwest's
23 overall recommendation in this case.

1

2 **Q. PLEASE IDENTIFY THE QWEST WITNESSES IN THIS CASE WHO**
3 **WILL ADDRESS THE VARIOUS ITEMS.**

4 A. In addition to my testimony, Qwest will present direct testimony from the
5 following witnesses:

- 6 • Robert Brigham—Switching costs and exhibits with proposed pricing
- 7 for all elements
- 8 • Richard Buckley—Loop Costs
- 9 • Georganne Weidenbach—Network Engineering Assumptions
- 10 • William Easton—Loop Products
- 11 • Kathryn Malone—Switching Products

12

13 **Q. HAS THE UTAH COMMISSION CONSIDERED THE COSTS AND**
14 **PRICES OF THESE ITEMS BEFORE?**

15 A. Yes. There have been several comprehensive wholesale cost proceedings in Utah
16 over the past eight years.

17

18

19 **Q. PLEASE PROVIDE A SUMMARY OF THE PREVIOUS WHOLESALE**
20 **COST PROCEEDINGS IN UTAH.**

21 A. In 1994, the Utah Public Service Commission (UPSC) opened the first wholesale
22 cost investigation, Docket Number 94-999-01. As many will recall, that
23 investigation spanned several years, phases and sub-parts. The docket resulted in

1 several orders issued by the Commission wherein it established costing and pricing
2 policies and some prices for wholesale products.

3
4 The UPSC order in Phase I of the docket addressed the avoided cost discounts and
5 was issued in October of 1997. It determined the wholesale discount rates for six
6 groups of services offered by Qwest (then U S WEST) based on an analysis of the
7 avoided costs of providing services at wholesale to resellers rather than at retail to
8 end user customers. That order was modified on rehearing by an order issued in
9 February of 1998. Subsequently, the Division of Public Utilities asked the PSC to
10 review the discount rates based on updated Division Cost of Service (DCOS) model
11 results as directed by the original PSC order. The PSC order amending those rates
12 was issued in February of 2000.

13

14 The order in Phase II of the docket was issued in April of 1998. It set the average
15 unbundled loop rate at \$20 per month based on TELRIC cost studies.

16

17 **Q. PLEASE DESCRIBE PHASE THREE OF THE DOCKET.**

18 A. Phase III had three sub-parts, which were designated as A, B, and C. Phase IIIA
19 addressed collocation, interim number portability and non-recurring charges.

20

21 Phase IIIB addressed proxy cost models such as the Benchmark Cost Proxy Model
22 (BCPM) filed by U S WEST and the various iterations of the Hatfield model

1 supported by AT&T. Ultimately, the Commission closed the entire docket without
2 selecting a model.

3
4 Finally Phase III-C set the rates for unbundled network elements, including the two
5 and four-wire loop, sub-loop unbundling elements, local switching, non-traffic
6 sensitive elements and tandem switching minutes of use. The order geographically
7 de-averaged rates into three zones: urban, suburban and rural.

8
9 **Q. DID THE PSC RE-EXAMINE COLLOCATION COSTS AT A LATER**
10 **DATE?**

11 A. Yes. In Docket Number 00-049-106, the PSC reviewed collocation costs again.
12 The Commission issued its initial order in December of 2001 and its order on
13 reconsideration in April of 2002. The PSC adopted the DPU version of the Qwest
14 collocation cost model as the starting point and directed the DPU to incorporate
15 additional input and changes in assumptions.

16
17
18 **Q. WHAT OTHER COST PROCEEDINGS WERE INITIATED BY THE**
19 **UPSC ?**

20 A. The PSC opened Docket Number 00-049-105 in December of 2000 to examine
21 costing and pricing of emerging services and UNEs it had not previously addressed.
22 The order in that docket was issued on June 6, 2002. The order set prices for those

1 services and it re-iterated several decisions regarding factors made in the
2 collocation order (e.g. overhead factors).
3

4 **Q. HAVE THOSE CHANGES ORDERED IN DOCKET NUMBER 00-049-105**
5 **BEEN MADE TO THE MODELS AND RESULTANT PRICES BEING**
6 **PROPOSED BY QWEST IN THIS DOCKET?**

7 A. No. Qwest has not modified its model or the rates proposed here to reflect the
8 factor changes in Docket Number 00-049-105. The Qwest cost models had already
9 been filed on May 24 pursuant to the procedural order in this docket.
10

11 Furthermore, Qwest strongly believes that the factors included in its studies
12 properly reflect forward-looking costs of an efficient provider using currently
13 available technology and, therefore, that the rates set in this docket should be set
14 based on Qwest's studies. Thus, Qwest requests the PSC reconsider its previous
15 decisions relating to factors in this docket on the basis of the evidence that will be
16 presented in this docket.
17

18 **Q. WHAT ELEMENTS ARE BEING EXAMINED IN THIS DOCKET?**

19
20 A. According to the procedural order, the Commission has identified the elements to
21 be examined in this docket.

22
23 This proceeding is limited to a consideration of the deaveraged recurring
24 rates for basic 2- and 4-wire analog (voice grade) unbundled loops,

1 subloop elements, tandem switching (per minute of use), local switching
2 (per minute of use), and the analog port (excluding features, which are
3 being addressed in Docket No. 00-049-105). ... Nonrecurring rates shall
4 not be considered in this proceeding.¹
5

6 **Q. ARE THERE OTHER PROCEEDINGS CURRENTLY PENDING THAT**
7 **MAY INFLUENCE THE ISSUES HERE?**

8 **A.** Yes. In the near future, Qwest is likely to file modified rates for a few core
9 unbundled network elements in conjunction with its Section 271 application to the
10 FCC. To the extent Qwest does file modified rates, the rates for those few
11 selected UNEs will be lower than those currently ordered by this Commission and
12 than Qwest is proposing in this docket.

13
14 Furthermore, as detailed above, the UPSC has conducted several lengthy cost
15 investigations over the past eight years – it has reviewed and modified models and
16 ultimately ordered TELRIC rates it found to be reasonable.

17
18
19 The rates filed as an attachment to the testimony of Mr. Brigham in this docket are
20 also reasonable and the appropriate rates for those UNEs. The fact that different
21 rates have been filed in a separate proceeding should not keep the PSC from once
22 again reviewing the evidence and adopting the rates consistent with those Qwest
23 proposes here.
24

¹ Procedural Order of the Utah Public Service Commission In the Matter of the Determination of
the Cost of the Unbundled Loop of Qwest Corporation issued June 11, 2002

1 **Q. WHAT IS QWEST'S OVERALL RECOMMENDATION IN THIS**
2 **PROCEEDING?**

3 A. Qwest recommends that the Commission set prices based on the Total Element
4 Long Run Incremental Cost ("TELRIC") studies presented with the testimony of
5 Mr. Brigham. The testimony of Mr. Brigham and Qwest's other witnesses
6 demonstrate that the costs and prices Qwest is presenting are reasonable and
7 consistent with the TELRIC standard.

8
9 As such, the prices for interconnection services and UNEs proposed by Mr.
10 Brigham will allow Qwest the opportunity to recover the forward-looking direct
11 and shared costs, a reasonable allocation of common costs, and a reasonable profit
12 from providing those elements in Utah. Thus, the proposed rates will provide
13 CLECs with access to UNEs at reasonable rates. Along with their ability to build
14 their own facilities and resell finished services at a discount, these UNEs will
15 provide CLECs with a full range of reasonable alternatives to enter the markets in
16 Utah they choose to enter. The Commission should adopt the specific prices set
17 forth in Exhibit RHB-1 to Robert Brigham's direct testimony.

18
19 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

20 A. Yes, it does.
21

**PROPOSED UNBUNDLED LOOP
AND SWITCHING RATES**

Docket No. 01-049-85
Direct Testimony of Robert H. Brigham
Exhibit No. RHB-1

	Recurring Rate	Cost Study Number	Pricing Witness
7.0 Interconnection			
7.6 Exchange Service (EAS/Local) Traffic			
7.6.1 End office call termination, per Minute of Use	\$0.001777	6414	Easton
7.6.2 Tandem Switched Transport			
Tandem Switching, per Minute of Use	\$0.001289	6414	Easton
9.0 Unbundled Network Elements (UNEs)			
9.2 Unbundled Loops			
9.2.1 Analog Loops			
2-Wire Voice Grade			
Urban	\$14.62	6414	Easton
Suburban	\$17.14	6414	Easton
Rural	\$20.93	6414	Easton
4-Wire Voice Grade			
Urban	\$29.21	6414	Easton
Suburban	\$34.27	6414	Easton
Rural	\$41.83	6414	Easton
9.2.2 Non-loaded Loops			
2-wire Non-loaded Loop			
Urban	\$14.62	6414	Easton
Suburban	\$17.14	6414	Easton
Rural	\$20.93	6414	Easton
4-wire Non-loaded Loop			
Urban	\$29.21	6414	Easton
Suburban	\$34.27	6414	Easton
Rural	\$41.83	6414	Easton
9.2.3 Digital Capable Loops			
Basic Rate ISDN / xDSL-I Capable / ADSL Compatible Loop			
Urban	\$14.62	6414	Easton
Suburban	\$17.14	6414	Easton
Rural	\$20.93	6414	Easton
9.3 Subloop			
9.3.1 2-Wire Distribution Loop			
Urban	\$9.89	6424	Easton
Suburban	\$12.08	6424	Easton
Rural	\$14.92	6424	Easton
9.5 Network Interface Device (NID)	\$0.83	6414	Easton
9.10 Local Tandem Switching			
9.10.4 Per Minute of Use	\$0.002026	6414	Malone
9.11 Local Switching			
9.11.1 Analog Line Side Port, with Features (at no additional recurring cost)	\$2.08	6414 [Note 1]	Malone
9.11.7 Local Usage, per Minute of Use	\$0.002143	6414	Malone

**PROPOSED UNBUNDLED LOOP
AND SWITCHING RATES**

Docket No. 01-049-85
Direct Testimony of Robert H. Brigham
Exhibit No. RHB-1

	Recurring Rate	Cost Study Number	Pricing Witness
9.23 UNE Combinations			
9.23.6 Enhanced Extended Loop (EEL)			
EEL Link/ Loop with Multiplexing			
EEL DS0 2-Wire Analog			
Urban	\$14.62	Note 2	Easton
Suburban	\$17.14	Note 2	Easton
Rural	\$20.93	Note 2	Easton
EEL DS0 4-Wire Analog			
Urban	\$29.21	Note 2	Easton
Suburban	\$34.27	Note 2	Easton
Rural	\$41.83	Note 2	Easton

NOTES:

- [1] \$2.08 Analog Line Side Port Rate = \$1.33 proposed rate for the Port (Study No. 6414) + \$0.75 Feature Cost/Port proposed in Docket No. 00-049-105.
[2] EEL Link Rates are set equal to the Unbundled Loop Rates; i.e., there is no separate cost study to establish EEL Link Rates.